

**KEYSTONE
AREA EDUCATION AGENCY 1**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

June 30, 2009

CONTENTS

OFFICIALS		1
INDEPENDENT AUDITOR'S REPORT		2-3
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)		4-10
BASIC FINANCIAL STATEMENTS	<u>Exhibit</u>	
Government-Wide Financial Statements:		
Statement of Net Assets	A	11-12
Statement of Activities	B	13
Governmental Fund Financial Statements:		
Balance Sheet	C	14
Reconciliation of the Balance Sheet –		
Governmental Funds to the Statement of Net Assets	D	15
Statement of Revenues, Expenditures and Changes in		
Fund Balances – Governmental Funds	E	16
Reconciliation of the Statement of Revenues,		
Expenditures and Changes in Fund Balances –		
Governmental Funds to the Statement of Activities	F	17
Notes to Financial Statements		18-28
REQUIRED SUPPLEMENTARY INFORMATION		
Statement of Revenues, Expenditures/Expenses and		
Changes in Balances – Budget and Actual –		
All Governmental Funds and Proprietary Fund		29
Note to Required Supplementary Information – Budgetary Reporting		30
Schedule of Funding Progress for the Retiree Health Plan		31
OTHER SUPPLEMENTARY INFORMATION	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	32
Combining Statement of Revenues, Expenditures		
and Changes in Fund Balances	2	33
Schedule of Revenues by Source and Expenditures by Function –		
All Governmental Fund Types	3	34
Schedule of Expenditures of Federal Awards	4	35-36
INDEPENDENT AUDITOR'S REPORT		
ON INTERNAL CONTROL OVER FINANCIAL REPORTING		
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN		
AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN		
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS		37-38

CONTENTS
(Continued)

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	39-40
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS	41-42
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KEYSTONE AREA EDUCATION AGENCY 1

OFFICIALS

<i>NAME</i>	<i>TITLE</i>	<i>TERM EXPIRES</i>
Board of Directors		
Walter Pregler	President	2011
Gary Gassett	Vice President	2009
Francis Peterson	Member	2011
Merle Gaber	Member	2009
Robert Brown	Member	2011
John Ganshirt	Member	2011
Norman Miller	Member	2011
Bill Withers	Member	2009
John Perrenoud	Member	2009
Agency		
Robert Vittengl	Administrator	
Gary Stumberg	Director of Administrative Services	
Candace Brockmeyer	Board Secretary	
Audie Baumgartner	Business Manager	Indefinite
	Treasurer	



SCHNURR & COMPANY, LLP

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Keystone Area Education Agency 1
Elkader, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Keystone Area Education Agency 1 as of and for the year ended June 30, 2009, which collectively comprise the Agency's basic financial statements listed in the table of contents. These financial statements are the responsibility of Agency officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U. S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Keystone Area Education Agency 1 at June 30, 2009, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U. S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated November 5, 2009, on our consideration of Keystone Area Education Agency 1's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison, and Schedule of Funding Progress for the Retiree Health Plan information on pages 4 through 10 and 29 through 31 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Keystone Area Education Agency 1's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the seven years ended June 30, 2008 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by U. S. Office of Management and Budget (OMB) Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Schnurr & Company, LLP

Fort Dodge, Iowa
November 5, 2009

KEYSTONE AREA EDUCATION AGENCY 1

MANAGEMENT'S DISCUSSION AND ANALYSIS

Keystone Area Education Agency 1 provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2009. We encourage readers to consider this information in conjunction with the Agency's financial statements which follow.

2009 FINANCIAL HIGHLIGHTS

General Fund revenues in 2009 (FY09) were \$23,918,586 while General Fund expenditures for FY09 were \$23,263,677. Financing uses for FY09 were \$429,639. This resulted in an increase in the Agency's General Fund balance from \$1,884,872 in FY08 to \$2,110,142 in FY09, a 12% increase from the prior year.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the agency's financial activities.
- The Government-wide Financial Statements consist of a statement of net assets and a statement of activities. These provide information about the activities of Keystone Area Education Agency as a whole and present an overall view of the Agency's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the Agency's operations in more detail than the government-wide statements by providing information about the most significant funds.
- Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the Agency's budget for the year, and Supplementary Information provides detailed information about the non-major funds.

MANAGEMENT'S DISCUSSION AND ANALYSIS

USING THIS ANNUAL REPORT (Continued)

Reporting the Agency as a Whole

Government-wide Financial Statements

The Government-wide statements report information about the Agency as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Agency's assets and liabilities. All of the current year revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Government-wide statements report the Agency's net assets and how they have changed. Net assets — the difference between the agency's assets and liabilities — are one way to measure the Agency's financial health or position.

- Over time, increases or decreases in the Agency's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the Agency's overall health, additional non-financial factors, such as changes in the Agency's property tax base and the condition of its facilities, need to be considered.

In the Government-wide financial statements, the Agency's activities consist of one category:

- *Governmental activities:* Most of the Agency's basic services are included here, such as regular and special education instruction, student and instructional staff support services, and administration. Local school districts, federal and state aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide detailed information about the Agency's funds, focusing on its most significant or "major" funds-not the Agency as a whole. Funds are accounting devices the Agency uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by state law or by bond covenants. The Agency establishes other funds to control and manage money for particular purposes, such as accounting for major construction projects or to show that it is properly using certain revenues, such as federal grants.

MANAGEMENT'S DISCUSSION AND ANALYSIS

USING THIS ANNUAL REPORT (Continued)

Reporting the Agency as a Whole (Continued)

Fund Financial Statements (continued)

The Agency has one kind of fund:

- Governmental funds account for all of the Agency's basic services. These focus on how cash and other financial assets that can readily be converted to cash flow in and out and the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. Because this information does not encompass the additional long-term focus of the Government-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements. The Agency's governmental funds include: 1) the General Fund, 2) the Special Revenue Fund, and 3) the Debt Service Fund.

The governmental funds required financial statements include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. Keystone Area Education Agency's net assets at the end of fiscal year 2009 totaled approximately \$3.2 million. The analysis that follows provides a summary of the Agency's net assets at June 30, 2009 for the governmental activities.

Condensed Statement				
	Governmental Activities		Business-type Activities	
	2008	2009	2008	2009
Current and other assets	\$ 6,771,263	\$ 7,504,294	\$ -	\$ -
Capital assets	4,422,518	4,192,581	-	-
Total assets	11,193,781	11,696,875	-	-
Long-term obligations	3,758,775	3,540,465	-	-
Other liabilities	4,461,545	4,967,280	-	-
Total liabilities	8,220,320	8,507,745	-	-
Net assets:				
Invested in capital assets, net of related debt	952,115	1,012,178	-	-
Restricted	424,846	426,872	-	-
Unrestricted	1,596,500	1,750,080	-	-
Total net assets	\$ 2,973,461	\$ 3,189,130	\$ -	\$ -

of Net Assets

Total Agency		Percentage Change (%)
2008	2009	2008-2009
\$ 6,771,263	\$ 7,504,294	10.8
4,422,518	4,192,581	(5.2)
11,193,781	11,696,875	4.5
3,758,775	3,540,465	(5.8)
4,461,545	4,967,280	11.3
8,220,320	8,507,745	3.5
952,115	1,012,178	6.3
424,846	426,872	0.5
1,596,500	1,750,080	9.6
\$ 2,973,461	\$ 3,189,130	7.3

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following analysis shows the changes in net assets for the year ended June 30, 2009:

	Changes in			
	Governmental Activities		Business-type Activities	
	2008	2009	2008	2009
Revenues:				
Program revenues:				
Charges for service	\$ 1,020,854	\$ 1,106,714	\$ -	\$ -
Operating grants and contributions	9,500,767	10,990,635	-	-
General revenues:				
Property taxes	5,731,214	5,882,076	-	-
State foundation aid	5,783,113	6,035,321	-	-
Unrestricted investment earnings	223,365	135,310	-	-
Total revenues	22,259,313	24,150,056	-	-
Program expenses:				
Instruction	640,498	256,544	-	-
Student support services	9,700,418	11,622,058	-	-
Instructional staff support services	5,914,181	6,643,135	-	-
General administration	2,929,419	2,985,477	-	-
Business administration	1,377,682	1,320,657	-	-
Plant operations and maintenance	908,202	905,531	-	-
Central and other support services	625	199	-	-
Community service operations	82,531	58,401	-	-
Interest on long-term debt	153,950	142,385	-	-
Total expenses	21,707,506	23,934,387	-	-
Increase (decrease) in net assets	551,807	215,669	-	-
Net assets beginning of year	2,421,654	2,973,461	-	-
Net assets end of year	\$ 2,973,461	\$ 3,189,130	\$ -	\$ -

MANAGEMENT'S DISCUSSION AND ANALYSIS

Net Assets

Total Agency		Percentage
2008	2009	Change (%)
		2008-2009
\$ 1,020,854	\$ 1,106,714	8.4
9,500,767	10,990,635	15.7
5,731,214	5,882,076	2.6
5,783,113	6,035,321	4.4
223,365	135,310	(39.4)
22,259,313	24,150,056	8.5
640,498	256,544	(59.9)
9,700,418	11,622,058	19.8
5,914,181	6,643,135	12.3
2,929,419	2,985,477	1.9
1,377,682	1,320,657	(4.1)
908,202	905,531	(0.3)
625	199	(68.2)
82,531	58,401	(29.2)
153,950	142,385	(7.5)
21,707,506	23,934,387	10.3
551,807	215,669	(60.9)
2,421,654	2,973,461	22.8
\$ 2,973,461	\$ 3,189,130	7.3

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Operating grants and contributions from local, state, and federal sources account for 46% of the total revenue. The Agency's expenses primarily relate to instruction and support services, which account for 77% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$24,150,056 and expenses were \$23,934,387.

FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS

As previously noted, Keystone Area Education Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Agency's governmental funds reported a combined fund balance that increased from \$2,309,718 to \$2,537,014.

Governmental Fund Highlights

The financial position of the Agency improved at the end of FY'09 as a result of a number of different influences. First and foremost, State Foundation Aid and property tax revenue increases totaling \$403,070 assisted the Agency in keeping pace with increased expenditures for salaries. In addition, the Agency instituted a "freeze" on discretionary expenditures during the course of the year that had a major impact on our ability to keep spending below actual revenues. And lastly, several existing vacancies were not filled during 2008-2009, which helped to keep spending to a manageable level.

Even with the budgetary focus of the Agency, major work was accomplished in promoting the Iowa Core Curriculum to AEA 1 schools. As enrollment decline continues, one of our biggest challenges will be to continue to provide quality service to our LEAs.

Budgetary Highlights

The Agency's Board of Directors annually adopts a budget on a basis consistent with U.S. generally accepted accounting principles. Although the budget document presents functional disbursements by fund, the legal level of control is at the total expenditure level, not at the fund or fund type level. After required public notice and State Board review, the State Board either approves the budget or returns it with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board. Over the course of the year, the Agency amended its annual operating budget one time to reflect additional revenue and expenditures associated with the additional services needed and provided to the local school districts. A schedule showing the original and final budget amounts compared to the Agency's actual financial activity is included in the required supplementary information section of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

On June 30, 2009, the Agency had invested approximately \$4.2 million, net of accumulated depreciation, in a broad range of capital assets, including land, building, computers, Media lending library and audio-visual equipment. Keystone Area Education Agency had depreciation expense of \$440,391 in FY09 and total accumulated depreciation of approximately \$6.1 million on June 30, 2009. More detailed information about capital assets is available in Note 4 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

As Keystone AEA begins FY'10, and continues planning for the future, many challenges exist that will significantly impact Agency operations. A major issue affecting the entire country is the economic recession that is severely impacting public and private enterprise. State of Iowa revenues have become so depleted that it is likely that the 1.5% across the board cut experienced in FY'09 will be followed up with a significantly larger reduction during FY'10. Unlike LEAs, area education agencies (lacking taxing authority) do not have the ability to recapture an across the board cut, so the impact is much more severe at our level. Therefore, again during FY'10, the Agency will be exceptionally frugal when analyzing the need for requested expenditures and will be examining all potential opportunities for reducing our costs of operation.

The declining enrollment trend appears to continue as our projected enrollment for FY'10 signifies a drop of approximately 200 students agency-wide. This trend, many times, is offset by an adequate allowable growth rate through the legislative process. However, the approved 2% is below the norm, and the legislature will have the ability to reduce this amount even further once the session begins in January.

Of special importance during FY'10 will be the results of the collective bargaining process, which will impact the increase in budgetary demands for FY'11. Although our staff needs to be competitively compensated, the Agency will need a favorable settlement in order to maintain current levels of service. Staffing analysis will need to occur annually in order to maintain financial strength.

Filling in a portion of the revenue void for the next two years is the acquisition of funding through the American Recovery and Reinvestment Act. These are Federal funds; the purpose of which is to provide opportunities to implement innovative strategies to improve outcomes for infants, toddlers, children, and youths with disabilities, and to assist in stimulating the economy through job retention and job creation. Through a careful planning process, Keystone will utilize funds to initiate projects that have been previously targeted as a high level need, in order to continue providing high quality service to its customers, while improving upon efficiency in its operations.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Agency's citizens, taxpayers, customers, investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office of Keystone Area Education Agency, 1400 2nd St N.W., Elkader, Iowa, 52043-9564.

KEYSTONE AREA EDUCATION AGENCY 1

BASIC FINANCIAL STATEMENT

STATEMENT OF NET ASSETS

June 30, 2009

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash	\$ 4,330,481	\$ -	\$ 4,330,481
Receivables:			
Accounts	207,001	-	207,001
Due from other governments	1,135,090	-	1,135,090
Inventories	21,942	-	21,942
Prepaid expenses	152,750	-	152,750
Restricted ISCAP assets:			
Investments	1,656,825	-	1,656,825
Accrued interest receivable	205	-	205
Capital assets (net of accumulated depreciation)	4,192,581	-	4,192,581
Total assets	11,696,875	-	11,696,875
Liabilities			
Accounts payable	420,931	-	420,931
Salaries and benefits payable	2,099,287	-	2,099,287
Interest payable	22,779	-	22,779
ISCAP warrants payable	1,631,000	-	1,631,000
Deferred revenue:			
Federal	734,953	-	734,953
Miscellaneous	58,330	-	58,330
Long-term liabilities			
Portion due or payable within one year:			
Capital leases	315,000	-	315,000
Early retirement obligation	26,323	-	26,323
Compensated absences	81,898	-	81,898
Portion due or payable after one year:			
Capital leases	2,865,403	-	2,865,403
Early retirement obligation	24,990	-	24,990
Compensated absences	147,382	-	147,382
Net OPEB liability	79,469	-	79,469
Total liabilities	8,507,745	-	8,507,745

(Continued on next page)

KEYSTONE AREA EDUCATION AGENCY 1**Exhibit A
(Continued)****STATEMENT OF NET ASSETS****June 30, 2009**

	Governmental Activities	Business-Type Activities	Total
Total Liabilities	\$ 8,507,745	\$ -	\$ 8,507,745
Net Assets			
Invested in capital assets, net of related debt	1,012,178	-	1,012,178
Restricted for:			
Debt service	426,872	-	426,872
Unrestricted	1,750,080	-	1,750,080
Total net assets	3,189,130	-	3,189,130
Total liabilities and net assets	\$ 11,696,875	\$ -	\$ 11,696,875

See Notes to Financial Statements.

KEYSTONE AREA EDUCATION AGENCY 1

STATEMENT OF ACTIVITIES

Year Ended June 30, 2009

		Program Revenues	
		Charges for	Operating
	Expenses	Services	Grants and
			Contributions
Functions/Programs:			
Governmental Activities:			
Instruction	\$ 256,544	\$ -	\$ 254,910
Student support services	11,622,058	374,010	9,487,919
Instructional staff support services	6,643,135	249,788	1,154,627
General administration	2,985,477	-	-
Business administration	1,320,657	482,916	-
Plant operations and maintenance	905,531	-	-
Central and other support services	199	-	-
Community service operations	58,401	-	93,179
Interest on long-term debt	142,385	-	-
Total	\$ 23,934,387	\$ 1,106,714	\$ 10,990,635

General revenues:

Property taxes
State foundation aid
Unrestricted investment earnings

Change in net assets

Net assets beginning of year

Net assets end of year

See Notes to Financial Statements.

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (1,634)	\$ -	\$ (1,634)
(1,760,129)	-	(1,760,129)
(5,238,720)	-	(5,238,720)
(2,985,477)	-	(2,985,477)
(837,741)	-	(837,741)
(905,531)	-	(905,531)
(199)	-	(199)
34,778	-	34,778
(142,385)	-	(142,385)
(11,837,038)	-	(11,837,038)
5,882,076	-	5,882,076
6,035,321	-	6,035,321
135,310	-	135,310
215,669	-	215,669
2,973,461	-	2,973,461
\$ 3,189,130	\$ -	\$ 3,189,130

KEYSTONE AREA EDUCATION AGENCY 1

Exhibit C

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2009

	Nonmajor Governmental		
	General	Funds	Total
Assets			
Cash	\$ 3,851,327	\$ 479,154	\$ 4,330,481
Receivables:			
Accounts	207,001	-	207,001
Due from other governments	1,135,090	-	1,135,090
Inventories	21,942	-	21,942
Prepaid expenditures	151,232	1,518	152,750
Restricted ISCAP assets:			
Investments	1,656,825	-	1,656,825
Accrued interest receivable	205	-	205
Total assets	\$ 7,023,622	\$ 480,672	\$ 7,504,294
Liabilities and Fund Balances			
Accounts payable	\$ 404,856	\$ 16,075	\$ 420,931
Salaries and benefits payable	2,083,782	15,505	2,099,287
Interest payable	559	22,220	22,779
ISCAP warrants payable	1,631,000	-	1,631,000
Deferred revenue:			
Federal	734,953	-	734,953
Miscellaneous	58,330	-	58,330
Total liabilities	4,913,480	53,800	4,967,280
Fund balances:			
Reserved for:			
Inventories	21,942	-	21,942
Prepaid expenditures	151,232	-	151,232
Media materials	474	-	474
Educator quality	71,895	-	71,895
Teacher mentoring	4,568	-	4,568
Unreserved:			
Undesignated	1,860,031	426,872	2,286,903
Total fund balances	2,110,142	426,872	2,537,014
Total liabilities and fund balances	\$ 7,023,622	\$ 480,672	\$ 7,504,294

See Notes to Financial Statements.

**RECONCILIATION OF THE BALANCE SHEET--
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2009**

Total governmental fund balances (page 14) \$ 2,537,014

*Amounts reported for governmental activities in the
Statement of Net Assets are different because:*

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$10,316,588 and the accumulated depreciation is \$6,124,007.

4,192,581

Long-term liabilities, including capital leases, compensated absences and other postemployment benefits, are not due and payable in the current period and, therefore, are not reported in the funds.

(3,540,465)

Net assets of governmental activities (page 12)

\$ 3,189,130

See Notes to Financial Statements.

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES -- GOVERNMENTAL FUNDS
Year Ended June 30, 2009**

	Nonmajor Governmental		
	General	Funds	Total
Revenues:			
Local sources	\$ 7,176,257	\$ -	\$ 7,176,257
State sources	7,407,843	231,470	7,639,313
Federal sources	9,334,486	-	9,334,486
Total revenues	23,918,586	231,470	24,150,056
Expenditures:			
Current:			
Instruction	59,082	195,829	254,911
Student support services	11,588,519	-	11,588,519
Instructional staff support services	6,571,021	4,119	6,575,140
General administration	2,952,980	16,765	2,969,745
Business administration	1,285,649	409	1,286,058
Plant operations and maintenance	747,457	9,576	757,033
Central and other support services	199	-	199
Community service operations	58,770	-	58,770
Debt service	-	432,385	432,385
Total expenditures	23,263,677	659,083	23,922,760
Excess (deficiency) of revenues over (under) expenditures	654,909	(427,613)	227,296
Other financing sources (uses):			
Transfers in	4,772	434,411	439,183
Transfers out	(434,411)	(4,772)	(439,183)
Total financing sources (uses)	(429,639)	429,639	-
Excess of revenues and other financing sources over expenditures and other financing uses	225,270	2,026	227,296
Fund balances, beginning of year	1,884,872	424,846	2,309,718
Fund balances, end of year	\$ 2,110,142	\$ 426,872	\$ 2,537,014

See Notes to Financial Statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES --
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2009**

Net change in fund balances - total governmental funds (page 16) \$ 227,296

*Amounts reported for governmental activities in the
statement of activities are different because:*

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the estimated useful lives of the assets. Depreciation expense exceeded capital outlay in the current year as follows:

Expenditures for capital assets	\$ 241,738	
Depreciation expense	(440,391)	(198,653)

In the Statement of Activities, the loss on the disposition of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources	(31,284)
---	----------

Repayment of long-term debt principal is an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	290,000
--	---------

Compensated absence, early retirement, and other postemployment benefit expense reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds.	(71,690)
--	----------

Change in net assets of governmental activities (page 13)	\$ 215,669
--	-------------------

See Notes to Financial Statements.

KEYSTONE AREA EDUCATION AGENCY 1

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Keystone Area Education Agency 1 is an intermediate school corporation established to identify and serve children who require special education. The Agency also provides media services and education support services. These programs and support services are provided to 25 school districts and private schools in an eight-county area. The Agency is governed by a Board of Directors whose members are elected on a non-partisan basis.

The Agency's financial statements are prepared in conformity with U. S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity:

For financial reporting purposes, Keystone Area Education Agency 1 has included all funds, organizations, agencies, boards, commissions and authorities. The Agency has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Agency are such that exclusion would cause the Agency's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Agency to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Agency. The Keystone Area Education Agency 1 has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation:

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the Agency's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (continued):

Government-wide Financial Statements (continued) – The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Unrestricted interest income and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The Agency reports the following major governmental fund:

The General Fund is the general operating fund of the Agency. All general revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

C. Measurement Focus and Basis of Accounting:

The Government-wide financial statements and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days after year-end.

Intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Agency.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Fund Equity:

Cash – Cash includes amounts in demand deposits, money market funds and certificates of deposit.

Inventories – Inventories are stated at cost using the first-in, first-out method and consist of expendable supplies and materials. The cost of these items is recorded as an expenditure at the time of consumption.

Capital Assets – Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the Agency as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Property, furniture and equipment are depreciated using the straight-line method of depreciation over the following useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	25
Improvements other than buildings	20
Furniture and equipment	5-20
Library books	5

Salaries and Benefits Payable – Payroll and related expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Deferred revenue represents an excess of cash advances by the funding source over accrued expenditures at year-end.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Fund Equity (continued):

Compensated Absences – Agency employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability has been recorded in the Statement of Net Assets representing the Agency's commitment to fund non-current compensated absences. This liability has been computed based on rates of pay in effect at June 30, 2009. The compensated absences liability attributable to the governmental activities will be paid primarily by the General and Special Revenue Funds.

Long-term Liabilities – In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Note 2. Cash and Pooled Investment

The Agency's deposits in banks at June 30, 2009 were entirely covered by Federal depository insurance or by the state sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Agency is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Directors; prime eligible bankers' acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk. The Agency's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Agency.

NOTES TO FINANCIAL STATEMENTS

Note 3. Iowa School Cash Anticipation Program (ISCAP)

The Agency participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards, and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each participating entity is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity and are provided monthly statements regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co., NA is trustee of the program. These accounts are reflected as restricted assets on the Statement of Net Assets and Balance Sheet.

A summary of the Agency's participation in ISCAP as of June 30, 2009 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2009-2010A	6/25/2009	6/23/2010	\$ 1,656,825	\$ 205	\$ 1,631,000	\$ 559

The Agency pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the Agency must repay the outstanding withdrawal from its General Fund receipts. In addition, the Agency must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2009 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2009-2010A	\$ -	\$ -	\$ -	\$ -

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2009-2010A	2.500%	0.902%

NOTES TO FINANCIAL STATEMENTS

Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2009 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 343,373	\$ -	\$ -	\$ 343,373
Total capital assets not being depreciated	343,373	-	-	343,373
Capital assets being depreciated:				
Buildings	5,624,750	-	-	5,624,750
Improvements other than buildings	93,000	-	-	93,000
Furniture and equipment	939,775	55,427	112,751	882,451
Library books	3,357,130	186,311	170,427	3,373,014
Total capital assets being depreciated	10,014,655	241,738	283,178	9,973,215
Less accumulated depreciation for:				
Buildings	2,688,429	186,860	-	2,875,289
Improvements other than buildings	54,405	4,185	-	58,590
Furniture and equipment	717,016	36,601	98,510	655,107
Library books and films	2,475,660	212,745	153,384	2,535,021
	5,935,510	440,391	251,894	6,124,007
Total capital asset being depreciated, net	4,079,145	(198,653)	31,284	3,849,208
Governmental activities capital assets, net	\$ 4,422,518	\$ (198,653)	\$ 31,284	\$ 4,192,581

Depreciation expense was charged to functions of the Agency as follows:

Governmental activities:	
Student support services	\$ 4,438
Instructional staff support services	220,773
General administration	3,940
Business administration	8,843
Plant operations and maintenance	202,397
Total governmental activities depreciation expense	\$ 440,391

NOTES TO FINANCIAL STATEMENTS

Note 5. Changes in Long-term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2009 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Capital leases	\$ 3,470,403	\$ -	\$ 290,000	\$ 3,180,403	\$ 315,000
Early retirement obligation	81,404	-	30,091	51,313	26,323
Compensated absences	206,968	84,488	62,176	229,280	81,898
Net OPEB liability	-	79,469	-	79,469	-
	<u>\$ 3,758,775</u>	<u>\$ 163,957</u>	<u>\$ 382,267</u>	<u>\$ 3,540,465</u>	<u>\$ 423,221</u>

Capital leases: The Agency is obligated under a lease accounted for as a capital lease. Fixed assets under a capital lease included in buildings totaled \$4,687,173 at June 30, 2009. The lease matures May 1, 2017 and requires interest at an interest rate of 4.25%. The following is a schedule of future minimum lease payments required under the capital lease as of June 30, 2009:

Year Ending June 30,	Principal	Interest	Total
2010	\$ 315,000	\$ 131,873	\$ 446,873
2011	345,000	118,167	463,167
2012	360,000	95,642	455,642
2013	310,000	88,523	398,523
2014	325,000	75,242	400,242
2015 and later years	1,525,403	142,426	1,667,829
Total	<u>\$ 3,180,403</u>	<u>\$ 651,873</u>	<u>\$ 3,832,276</u>

Payments under the agreement for the year ended June 30, 2009, including interest of \$142,385, totaled \$432,385.

Early retirement obligation: The Agency offered a voluntary early retirement plan to its employees that was discontinued effective June 30, 2006. Eligible employees must have completed at least fifteen years of full-time service to the Agency and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Directors. Early retirement benefits are equal to 20% of the employee's regular contractual salary in effect during the employee's last year of employment, with additional benefits available related to unused sick leave days and health insurance. Early retirement benefits will be paid in four equal installments in January and June in the years following the start of retirement. Health insurance benefits will be paid for up to five consecutive years after retirement or until the employee's 65th birthday, whichever comes first. At June 30, 2009, the Agency has obligations to six participants with a total liability of \$51,313. Actual early retirement expenditures for the year ended June 30, 2009 totaled \$30,091.

NOTES TO FINANCIAL STATEMENTS

Note 6. Operating Leases

The Agency has leases for copiers and other related equipment that have been classified as operating leases and accordingly, all rents are charged to expenditures as incurred. The leases expire on dates ranging from November 2010 through June 2014.

The following is a schedule by year of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2009.

Year Ending June 30,	Amount
2010	\$ 107,077
2011	105,277
2012	105,277
2013	79,434
2014	61,395
Thereafter	-
	<u>\$ 458,460</u>

Total rental expenditures for the year ended June 30, 2009 for all operating leases, except those with terms of a month or less that were not renewed, was \$63,917.

Note 7. Pension and Retirement Benefits

The Agency contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 4.10% of their annual covered salary and the Agency is required to contribute 6.35% of annual covered payroll. Contribution requirements are established by State statute. The Agency's contribution to IPERS for the years ended June 30, 2009, 2008 and 2007 was \$867,375, \$778,900 and \$665,571, respectively, equal to the required contributions for each year.

NOTES TO FINANCIAL STATEMENTS

Note 8. Other Postemployment Benefits (OPEB)

The Agency implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions during the year ended June 30, 2009.

Plan Description The Agency operates a single-employer retiree benefit plan that provides medical/dental benefits for retirees and their spouses. There are 259 active and 25 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/dental coverage is provided through a fully insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy The contribution requirements of plan members are established and may be amended by the Agency. The Agency currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation The Agency's annual OPEB cost is calculated based on the annual required contribution (ARC) of the Agency, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfounded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the Agency's annual OPEB cost for the year ended June 30, 2009, the amount actually contributed to the plan and changes in the Agency's net OPEB obligation:

Annual required contribution	\$ 135,809
Interest on net OPEB obligation	-
Adjustment to annual required contribution	(56,340)
Annual OPEB cost	<u>79,469</u>
Contributions made	-
Increase in net OPEB obligation	<u>79,469</u>
Net OPEB obligation beginning of year	<u>-</u>
Net OPEB obligation end of year	<u>\$ 79,469</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2009.

For the year ended June 30, 2009, the Agency contributed \$1,852,142 to the medical/dental plan. Plan members eligible for benefits contributed \$362,871 to the medical/dental plan.

NOTES TO FINANCIAL STATEMENTS

Note 8. Other Postemployment Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation (continued) The Agency's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2009 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost	Net OPEB Obligation
June 30, 2009	\$ 79,469	0.00%	\$ 79,469

Funded Status and Funding Progress As of July 1, 2008, the most recent actuarial valuation date for the period July 1, 2008 through June 30, 2009, the actuarial accrued liability was \$1.023 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1.023 million. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$13,459,000, and the ratio of the UAAL to covered payroll was 7.60%. As of June 30, 2009, there were no trust fund assets.

Actuarial Methods and Assumptions Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections for benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2008 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the Agency's funding policy. The projected annual medical trend rate is 6%.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2007.

NOTES TO FINANCIAL STATEMENTS

Note 9. Risk Management

The Agency is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Agency assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

KEYSTONE AREA EDUCATION AGENCY 1

REQUIRED SUPPLEMENTARY INFORMATION

KEYSTONE AREA EDUCATION AGENCY 1**STATEMENT OF REVENUES, EXPENDITURES/EXPENSES****AND CHANGES IN BALANCES -- BUDGET AND ACTUAL****ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND****Required Supplementary Information****Year Ended June 30, 2009**

	Governmental Fund Types Actual	Proprietary Fund Types Actual	Total Actual
Revenues:			
Local sources	\$ 7,176,257	\$ -	\$ 7,176,257
State sources	7,639,313	-	7,639,313
Federal sources:	9,334,486	-	9,334,486
Total revenues	24,150,056	-	24,150,056
Expenditures/Expenses:			
Current:			
Instruction	254,911	-	254,911
Student support services	11,588,519	-	11,588,519
Instructional staff support services	6,575,140	-	6,575,140
General administration	2,969,745	-	2,969,745
Business administration	1,286,058	-	1,286,058
Plant operations and maintenance	757,033	-	757,033
Central and other support services	199	-	199
Community service operations	58,770	-	58,770
Debt service	432,385	-	432,385
Total expenditures/expenses	23,922,760	-	23,922,760
Excess (deficiency) of revenues over (under) expenditures/expenses	227,296	-	227,296
Other financing sources	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures/ expenses and other financing (uses)	227,296	-	227,296
Balance, beginning of year	2,309,718	-	2,309,718
Balance, end of year	\$ 2,537,014	\$ -	\$ 2,537,014

See accompanying Independent Auditor's Report.

Budget		Final to Actual Variance - Favorable (Unfavorable)
Original	Final	
\$ 7,032,901	\$ 7,142,244	\$ 34,013
7,651,727	7,649,410	(10,097)
8,319,025	8,400,439	934,047
23,003,653	23,192,093	957,963

506,853	696,540	441,629
10,429,736	10,302,335	(1,286,184)
6,186,832	6,172,520	(402,620)
3,081,164	2,975,462	5,717
1,465,084	2,326,540	1,040,482
808,586	947,403	190,370
3,621	2,821	2,622
87,366	87,170	28,400
434,411	432,385	-
23,003,653	23,943,176	20,416

-	(751,083)	978,379
-	-	-

-	(751,083)	978,379
2,309,718	2,309,718	-
\$ 2,309,718	\$ 1,558,635	\$ 978,379

KEYSTONE AREA EDUCATION AGENCY 1
June 30, 2009

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

The Agency's Board of Directors annually prepares a budget on a basis consistent with U. S. generally accepted accounting principles. Although the budget document presents functional disbursements by fund, the legal level of control is at the total expenditure/expense level, not by fund. After required public notice and hearing in accordance with the Code of Iowa, the Board submits its budget to the State Board of Education. The State Board reviews the proposed budget and either grants approval or returns it without approval with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board.

KEYSTONE AREA EDUCATION AGENCY 1**Schedule of Funding Progress for the Retiree Health Plan (In Thousands)****Required Supplementary Information**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
7/1/2008	\$ -	\$ 1,023	\$ 1,023	0.00%	\$ 13,459	7.60%

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

OTHER SUPPLEMENTARY INFORMATION

KEYSTONE AREA EDUCATION AGENCY 1

Schedule 1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2009**

		<div> <div>Special Revenue</div> <div>Juvenile</div> <div>Home</div> </div> <div>Debt Service</div> <div>Total</div>		
Assets				
Cash		\$ 30,062	\$ 449,092	\$ 479,154
Prepaid expenditures		1,518	-	1,518
Total assets		\$ 31,580	\$ 449,092	\$ 480,672
Liabilities and Fund Balances				
Liabilities:				
Accounts payable		\$ 16,075	\$ -	\$ 16,075
Interest payable		-	22,220	22,220
Salaries and benefits payable		15,505	-	15,505
Total liabilities		31,580	22,220	53,800
Fund balances:				
Unreserved, undesignated fund balance		-	426,872	426,872
Total liabilities and fund balances		\$ 31,580	\$ 449,092	\$ 480,672

See Accompanying Independent Auditor's Report.

KEYSTONE AREA EDUCATION AGENCY 1

Schedule 2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2009**

	Special Revenue Juvenile Home	Debt Service	Total
Revenues:			
State sources	\$ 231,470	\$ -	\$ 231,470
Total revenues	231,470	-	231,470
Expenditures:			
Current:			
Instruction	195,829	-	195,829
Instructional staff support services	4,119	-	4,119
General administration	16,765	-	16,765
Business administration	409	-	409
Plant operations and maintenance	9,576	-	9,576
Debt service	-	432,385	432,385
Total expenditures	226,698	432,385	659,083
Excess (deficiency) of revenues over (under) expenditures	4,772	(432,385)	(427,613)
Other financing sources (uses):			
Transfers in (out)	(4,772)	434,411	429,639
	(4,772)	434,411	429,639
Excess of revenues and other financing sources over expenditures	-	2,026	2,026
Fund balances beginning of year	-	424,846	424,846
Fund balances end of year	\$ -	\$ 426,872	\$ 426,872

See accompanying Independent Auditor's Report.

KEYSTONE AREA EDUCATION AGENCY 1
**SCHEDULE OF REVENUES BY SOURCE AND
 EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 For the Last Ten Years**

	Modified			
	Years Ended June 30,			
	2009	2008	2007	2006
Revenues:				
Local	\$ 7,176,257	\$ 7,027,608	\$ 6,699,556	\$ 6,552,694
State	7,639,313	6,864,814	5,721,745	5,175,879
Federal	9,334,486	8,366,891	8,719,971	8,870,515
Total	\$ 24,150,056	\$ 22,259,313	\$ 21,141,272	\$ 20,599,088
Expenditures				
Instruction	\$ 254,911	\$ 638,042	\$ 377,243	\$ 294,653
Student support services	11,588,519	9,783,157	9,337,230	9,438,835
Instructional staff support services	6,575,140	5,934,985	5,720,022	5,699,278
General administration	2,969,745	2,985,714	2,872,640	3,005,570
Business administration	1,286,058	1,383,903	1,294,592	1,192,424
Plant operations and maintenance	757,033	726,456	725,009	671,528
Central and other support services	199	625	576	2,421
Community service operations	58,770	83,388	87,292	85,828
Facilities acquisition and construction	-	-	-	127,727
Special education support services	-	-	-	-
Media services	-	-	-	-
Education services	-	-	-	-
Debt service	432,385	413,950	462,950	453,513
Total expenditures	\$ 23,922,760	\$ 21,950,220	\$ 20,877,554	\$ 20,971,777

See accompanying Independent Auditor's Report.

Schedule 3

Accrual Basis					
2005	2004	2003	2002	2001	2000
\$ 6,402,127	\$ 6,135,625	\$ 5,926,165	\$ 5,692,600	\$ 5,752,762	\$ 5,872,958
4,923,883	4,891,443	5,588,592	5,503,191	6,084,755	6,010,629
8,502,948	7,665,784	6,644,135	5,714,781	4,669,090	4,343,863
\$ 19,828,958	\$ 18,692,852	\$ 18,158,892	\$ 16,910,572	\$ 16,506,607	\$ 16,227,450
\$ 121,543	\$ 117,248	\$ 94,162	\$ 82,528	\$ 70,750	\$ 60,149
9,322,347	8,422,985	7,666,455	11,754,658	-	-
5,402,081	5,624,220	5,242,624	3,540,505	-	-
2,979,545	2,691,044	2,618,878	621,985	-	-
758,353	571,982	476,412	234,492	-	-
630,566	768,618	565,719	138,345	-	-
192,599	296,276	320,905	266,429	-	-
-	-	-	-	-	-
-	-	-	-	16,832	385,222
-	-	-	-	11,857,183	11,519,327
-	-	-	-	1,543,146	1,480,392
-	-	-	-	2,471,296	2,789,573
361,701	345,683	363,047	349,448	336,636	325,508
\$ 19,768,735	\$ 18,838,056	\$ 17,348,202	\$ 16,988,390	\$ 16,295,843	\$ 16,560,171

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2009

Project Title	CFDA Number	Pass-through Grantor's Number	Expenditures
Indirect:			
U. S. Department of Education:			
Passed-through Iowa Department of Education:			
Part B, Education of Handicapped act (EHA)			
Special Education - Grants to States:			
Basic Entitlement	84.027	080901	\$ 5,383,037
Supplemental Support	84.027	9KB2-01	1,780,682
Parent-Educator Connection	84.027	87401	93,179
Instructional Decision Making	84.027	8K79-01	66,223
			<u>7,323,121</u>
Special Education:			
Grants for Infants and Families with Disabilities:			
Part C	84.181	C08-01	<u>204,536</u>
Special Education - Preschool Grants:			
Section 619 Project	84.173	08619-01	<u>240,708</u>
Early Childhood Professional Development	84.173	FECPDO809-01	<u>29,088</u>
Secondary Professional Development	84.323	SPDG-01	<u>11,558</u>
Every Child Reads	84.173	ECR-7FE4-01	<u>5,980</u>
Vocational Ed - Basic Grants to States	84.048A		<u>196,510</u>

(Continued on next page)

KEYSTONE AREA EDUCATION AGENCY 1

Schedule 4
(Continued)SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2009

Project Title	CFDA Number	Pass-through Grantor's Number	Expenditures
Indirect (Continued):			
U. S. Department of Education:			
Passed-through Iowa Department of Education:			
Title III - English Language Acquisition	84.365		\$ 40,666
Every Learner Inquires	84.367	043009	6,537
Reading First	84.357		17,904
Enhancing Education Through Technology	84.318		160,472
ARRA - Special Education Grants to States, Recovery Act	84.391	RKB1	35,357
ARRA - Special Education Preschool Grants, Recovery Act	84.392	RKB2	960,929
Passed-through an Iowa LEA:			
Title II, Part A	84.367		35,764
Safe and Drug Free Schools	84.186		486
U. S. Department of Health and Human Services:			
Passed-through Iowa Department of			
Medicaid Reimbursement:			
Medicaid Direct Services	93.778		64,870
			\$ 9,334,486

Basis of Presentation: The Schedule of Expenditures of Federal Awards includes the federal grant activity of Keystone Area Education Agency 1 and is presented on the modified accrual basis. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying Independent Auditor's Report.

KEYSTONE AREA EDUCATION AGENCY 1

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



SCHNURR & COMPANY, LLP

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Keystone Area Education Agency 1
Elkader, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Keystone Area Education Agency 1 (the "Agency"), as of and for the year ended June 30, 2009, which collectively comprise the Agency's basic financial statements listed in the table of contents, and have issued our report thereon dated November 5, 2009. We conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing our opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We identified no deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with US general accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control. We noted no significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Agency's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Agency. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Agency's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Agency's responses, we did not audit the Agency's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Agency, and other parties to whom the Agency may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Keystone Area Education Agency 1 during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Schnarr & Company, LLP

Fort Dodge, Iowa
November 5, 2009

KEYSTONE AREA EDUCATION AGENCY 1

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**



SCHNURR & COMPANY, LLP

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors of
Keystone Area Education Agency 1
Elkader, Iowa

Compliance

We have audited the compliance of Keystone Area Education Agency 1 (the "Agency") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The Agency's major federal programs are identified in Part 1 of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with U. S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the Agency is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the Agency's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Agency's internal control that might be significant deficiencies or material weaknesses as defined below.

A control deficiency in the Agency's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects the Agency's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Agency's internal control. We identified no deficiencies in internal control over compliance.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Agency's internal control. We identified no significant deficiencies or material weaknesses in internal control over compliance.

The Agency's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we expressed our conclusions on the Agency's responses, we did not audit the Agency's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Agency and other parties to whom the Agency may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Schnarr & Company, LLP

Fort Dodge, Iowa
November 5, 2009

KEYSTONE AREA EDUCATION AGENCY 1

Schedule of Findings and Questioned Costs Year Ended June 30, 2009

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) No significant deficiencies in internal control over financial reporting were disclosed.
- (c) The audit did not disclose any noncompliance that is material to the financial statements.
- (d) No significant deficiencies in internal control over major programs were disclosed.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings that are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were:
 - Clustered programs:
 - CFDA Number 84.027 – Special Education – Grants to States
 - CFDA Number 84.173 – Special Education – Preschool Grants
 - CFDA Number 84.391 – ARRA – Special Education Grants to States, Recovery Act
 - CFDA Number 84.392 – ARRA – Special Education Preschool Grants, Recovery Act
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Keystone Area Education Agency 1 qualified as a low-risk auditee.

Part II: Findings Related to the General Purpose Financial Statements:

Instances of Non-Compliance:

No matters were reported.

Significant Deficiencies:

No matters were noted.

Part III: Findings and Questioned Costs For Federal Awards:

Instances of Non-Compliance:

No matters were reported.

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2009

Part III: Findings and Questioned Costs For Federal Awards (Continued):

Significant Deficiencies:

No matters were noted.

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-09 Budget: Expenditures during the year ended June 30, 2009 did not exceed the amounts budgeted.
- IV-B-09 Questionable Expenditures: No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- IV-C-09 Travel Expense: No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.
- IV-D-09 Business Transactions: No business transactions between the Agency and Agency officials or employees were noted.
- IV-E-09 Bond Coverage: Surety bond coverage of Agency officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- IV-F-09 Board Minutes: No transactions requiring Board approval were noted which had not been approved.
- IV-G-09 Deposits and Investments: The Agency complied with the provisions of Chapters 12B and 12C of the Code of Iowa.
- IV-H-09 Certified Annual Report: The Certified Annual Report was certified timely with the Department of Education.
- IV-I-09 Categorical Funding: No instances were noted of categorical funding used to supplant rather than supplement other funds.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Keystone Area Education Agency 1 during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Schnarr & Company, LLP

Fort Dodge, Iowa
November 5, 2009